

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
AT RICHMOND, JULY 13, 2010

APPLICATION OF

VIRGINIA ELECTRIC AND POWER COMPANY

CASE NO. PUE-2010-00054

For approval of the annual filing as required  
by Final Order of the State Corporation  
Commission in Case No. PUE-2007-00066  
granting approval of a rate adjustment clause,  
Rider S, with respect to the Virginia City Hybrid  
Energy Center generation and transmission  
facilities located in Wise County, Virginia

ORDER FOR NOTICE AND HEARING

On June 25, 2010, Virginia Electric and Power Company ("Dominion Virginia Power" or "Company"), pursuant to § 56-585.1 A 6 of the Code of Virginia ("Code") and the Rules Governing Utility Rate Applications and Annual Informational Filings ("Rate Case Rules"), filed with the State Corporation Commission ("Commission") an annual update with respect to the Company's rate adjustment clause, Rider S ("Application"). Through its filing, the Company seeks to recover costs associated with the development of the Virginia City Hybrid Energy Center, a 585 MW nominal coal-fueled generating plant and associated interconnection facilities under construction in Wise County, Virginia. The Company also filed on June 25, 2010, the Motion of Virginia Electric and Power Company for Entry of a Protective Order ("Motion for Protective Order"), and a proposed Protective Order that establishes procedures governing the use of confidential information in this proceeding.

In Case No. PUE-2007-00066,<sup>1</sup> the Commission approved the development of the Virginia City Hybrid Energy Center. In conjunction with its approval of the Virginia City

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<sup>1</sup> *Application of Virginia Electric and Power Company, For a certificate of public convenience and necessity to construct and operate an electric generation facility in Wise County, Virginia, and for approval of a rate adjustment clause under §§ 56-585.1, 56-580 D, and 56-46.1 of the Code of Virginia*, Case No. PUE-2007-00066, Final Order (March 31, 2008), *aff'd, Appalachian Voices, et al. v. State Corp. Comm'n., et al.*, Record No. 081433, slip op. (Sup. Ct. Va.) (April 17, 2009).

Hybrid Energy Center, the Commission also approved a rate adjustment clause ("RAC"), designated Rider S, which allowed Dominion Virginia Power to recover its costs associated with the development of the Virginia City Hybrid Energy Center, including projected construction work in progress and any associated allowance for funds used during construction ("AFUDC").<sup>2</sup> Pursuant to the Final Order in Case No. PUE-2007-00066, the Company is required to file a Rider S application with the Commission on or before March 15 of each year to: (1) inform the Commission of the status of the Virginia City Hybrid Energy Center and update its projected costs of construction; and (2) provide the Company's annual revenue requirement associated with the Virginia City Hybrid Energy Center, including the Company's proposed cost allocation, rate design, and accounting treatment for those costs related to the project.<sup>3</sup>

According to Dominion Virginia Power's Application, the Virginia City Hybrid Energy Center is generally proceeding on schedule and on budget, with the total construction cost forecast remaining at the \$1.8 billion level, excluding financing costs, approved in the Commission's Final Order in Case No. PUE-2007-00066.<sup>4</sup> The total revenue requirement proposed to be recovered by the Application is \$200,457,000, which is proposed to go into effect on April 1, 2011.<sup>5</sup> The revenue requirement provided by the Company is for service rendered

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<sup>2</sup> See Application at 3.

<sup>3</sup> Pursuant to Ordering Paragraph (3) of the Commission's Order Approving Stipulation and Addendum in Case No. PUE-2009-00011, the filing date for Rider S was extended from March 31, 2010, to on or before June 30, 2010, and on or before June 30 of each year thereafter. See *Application of Virginia Electric and Power Company, For approval of the Annual Filing as required by Final Order of the State Corporation Commission in Case No. PUE-2007-00066 granting approval of a rate adjustment clause, Rider S, with respect to the Virginia City Hybrid Energy Center generation and transmission facilities located in Wise County, Virginia*, Case No. PUE-2009-00011, Order Approving Stipulation and Addendum (March 11, 2010 ("the 2010 Stipulation Order")).

<sup>4</sup> Application at 5-6.

<sup>5</sup> *Id.* at 10.

during the proposed rate year, which commences on April 1, 2011, and extends through March 31, 2012.<sup>6</sup>

The key components of the revenue requirement are the Projected Cost Recovery Factor, the AFUDC Cost Recovery Factor, and the Actual Cost True-Up Factor.<sup>7</sup> The Projected Cost Recovery Factor takes the projected thirteen-month average rate base for the month ending March 31, 2011, through the month ending March 31, 2012, and multiplies it by the Company's cost of capital. The calculation of the Projected Cost Recovery Factor revenue requirement totals \$178,586,000 for Virginia jurisdictional customers.<sup>8</sup> The AFUDC Cost Recovery Factor represents the amortization, over the remaining construction period beginning April 1, 2011, of the unrecovered AFUDC accrued between the date the project began and the day before January 1, 2009, which was when rates initially went into effect recovering a cash return on the project. Therefore, the Company's proposed AFUDC Cost Recovery Factor revenue requirement for the twelve-month period beginning April 1, 2011, is \$7,529,000, and includes a twelve-month recovery of approximately 31% of the accrued balance of AFUDC, at a revenue requirement level, which has been grossed up for taxes.<sup>9</sup> The Actual Cost True-Up Factor will credit to, or recover from, customers any over/under recovery of costs from the most recently completed calendar year. In this case, the actual costs incurred during 2009, including the approved rate of return on common equity of 12.12%, are compared to actual revenues recovered during 2009. According to the Company, the difference between the actual costs incurred in 2009 and the actual revenues collected from Virginia jurisdictional customers shows that there

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<sup>6</sup> *Id.* at 4.

<sup>7</sup> *Id.* at 8.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.* at 9.

was an under-recovery of actual costs during the 2009 rate year of \$14,342,000, inclusive of finance costs.<sup>10</sup>

For the calculation of the projected annual revenue requirement for Rider S in the 2011 rate year, Dominion Virginia Power has utilized an enhanced rate of return on common equity ("ROE") of 12.30%. This reflects a proposed general ROE of 11.30% and a 100 basis point enhanced return.<sup>11</sup>

Finally, the Company has requested a waiver of some of the requirements set forth in Rule 20 VAC 5-201-60 and Rule 20 VAC 5-201-90 of the Rate Case Rules. More specifically, Dominion Virginia Power has requested that the Commission waive portions of Filing Schedule 46. In support of its waiver request, the Company asserts that the information required by Filing Schedule 46 does not directly pertain to the relief requested in this filing and that such information has already been provided, or findings related to these topics have already been made by the Commission, in Case No. PUE-2007-00066.<sup>12</sup>

NOW THE COMMISSION, having considered the Application, is of the opinion and finds that public notice and an opportunity for participation in this proceeding should be given; that a hearing should be scheduled on the Application; and that a Hearing Examiner should be assigned to conduct all further proceedings on behalf of the Commission, concluding with the filing of a final report containing the Hearing Examiner's findings and recommendations.

As a preliminary matter, while we recognize that participants in the Stipulation and Addendum in Case No. PUE-2009-00011 agreed to support a specific base ROE in this Rider S filing, the Commission has not pre-determined the issue. Rather than litigate the ROE issue in

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<sup>10</sup> *Id.* at 9-10.

<sup>11</sup> *Id.* at 5.

<sup>12</sup> *Id.* at 13.

this proceeding, however, we will establish 11.3% as a placeholder ROE in this case in the interest of judicial economy and we will litigate the ROE issue in the 2011 biennial review. We note that the use of a placeholder ROE in this proceeding parallels the use of a placeholder ROE in the Company's Rider S ROE last year, which remained in place pending the outcome of the Company's base rate case.

Additionally, the Commission finds that the Company should be granted a partial waiver of the Rate Case Rules' requirement to file Schedule 46 in this proceeding. Since much of the information required by Schedule 46 has been previously provided in Case No.

PUE-2007-00066, we will grant the Company a partial waiver of Rule 20 VAC 5-201-60 and Rule 20 VAC 5-201-90 of the Rate Case Rules. Specifically, the Commission will grant Dominion Virginia Power a waiver from the Schedule 46 requirements that are set forth and described in detail in the Company's Application, which are the same Schedule 46 requirements the Commission waived in its April 21, 2009 Order for Notice and Hearing in Case No.

PUE-2009-00011.<sup>13</sup>

The Company also requests that a continuous and ongoing partial waiver of requirements of Schedule 46, as enumerated above, be granted not solely in this case but in all future proceedings to modify the rate adjustment clause for the Virginia City Hybrid Energy Center. While the Commission has considered the Company's request to waive some of the filing requirements of Schedule 46 in all future proceedings involving Rider S, we will defer ruling at this point and direct the Hearing Examiner assigned to this matter to make a recommendation.

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<sup>13</sup> *Application of Virginia Electric and Power Company, For approval of the Annual Filing as required by Final Order of the State Corporation Commission in Case No. PUE-2007-00066 granting approval of a rate adjustment clause, Rider S, with respect to the Virginia City Hybrid Energy Center generation and transmission facilities located in Wise County, Virginia, Case No. PUE-2009-00011, Order for Notice and Hearing (April 21, 2009).*

Experience in this first annual revision of Rider S will give the Hearing Examiner a basis for a recommendation.

Finally, the Commission finds that the Hearing Examiner assigned to this proceeding shall rule on the Company's Motion for Protective Order.

Accordingly, IT IS ORDERED THAT:

(1) As provided by § 12.1-31 of the Code and 5 VAC 5-20-120 of the Commission's Rules of Practice and Procedure, a Hearing Examiner is appointed to conduct all further proceedings in this matter on behalf of the Commission as directed above.

(2) A public hearing shall be convened on November 9, 2010, at 10:00 a.m., in the Commission's Courtroom, Second Floor, Tyler Building, 1300 East Main Street, Richmond, Virginia, to receive evidence related to the Company's application in this proceeding. Any person desiring to offer testimony as a public witness at the hearing concerning the Application need only appear in the Commission's Courtroom at 9:45 a.m. on the day of the hearing and identify himself or herself to the Commission's Bailiff.

(3) The Company shall make copies of the public version of its Application, as well as a copy of this Order for Notice and Hearing, available for public inspection during regular business hours at each of the Company's business offices in the Commonwealth of Virginia. Copies also may be obtained by submitting a written request to counsel for the Company, Karen L. Bell, Esquire, or Lisa S. Booth, Esquire, Dominion Resources Services, Inc., 120 Tredegar Street, Richmond, Virginia 23219. If acceptable to the requesting party, the Company may provide the public version of the Application by electronic means. Copies of the public version of the Application, as well as a copy of this Order for Notice and Hearing, shall also be available for interested persons to review in the Commission's Document Control Center, located on the First Floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia,

between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday, excluding holidays.

Interested persons may also download unofficial copies from the Commissions website:

<http://www.scc.virginia.gov/case>.

(4) On or before August 3, 2010, the Company shall cause the following notice to be published as display advertising (not classified) on one (1) occasion in newspapers of general circulation throughout the Company's service territory in the Commonwealth of Virginia:

NOTICE TO THE PUBLIC OF AN APPLICATION BY  
VIRGINIA ELECTRIC AND POWER COMPANY FOR  
APPROVAL OF THE ANNUAL FILING AS REQUIRED BY  
FINAL ORDER OF THE STATE CORPORATION  
COMMISSION IN CASE NO. PUE-2007-00066 GRANTING  
APPROVAL OF A RATE ADJUSTMENT CLAUSE, RIDER S,  
WITH RESPECT TO THE VIRGINIA CITY HYBRID  
ENERGY CENTER GENERATION AND  
TRANSMISSION FACILITIES LOCATED IN WISE COUNTY,  
VIRGINIA  
CASE NO. PUE-2010-00054

On June 25, 2010, Virginia Electric and Power Company ("Dominion Virginia Power" or "Company"), pursuant to § 56-585.1 A 6 of the Code of Virginia ("Code") and the Rules Governing Utility Rate Applications and Annual Informational Filings, filed with the State Corporation Commission ("Commission") an annual update with respect to the Company's rate adjustment clause, Rider S ("Application"). Through its filing, the Company seeks to recover costs associated with the development of the Virginia City Hybrid Energy Center, a 585 MW nominal coal-fueled generating plant and associated interconnection facilities under construction in Wise County, Virginia.

In Case No. PUE-2007-00066, the Commission approved the development of the Virginia City Hybrid Energy Center. In conjunction with its approval of the Virginia City Hybrid Energy Center, the Commission also approved a rate adjustment clause, designated Rider S, which allowed Dominion Virginia Power to recover its costs associated with the development of the Virginia City Hybrid Energy Center, including projected construction work in progress and any associated allowance for funds used during construction ("AFUDC"). Pursuant to the Final Order in Case No. PUE-2007-00066, the Company is required to file a Rider S application with the Commission each year to: (1) inform the

Commission of the status of the Virginia City Hybrid Energy Center and update its projected costs of construction; and (2) provide the Company's annual revenue requirement associated with the Virginia City Hybrid Energy Center, including the Company's proposed cost allocation, rate design, and accounting treatment for those costs related to the project.

According to Dominion Virginia Power's Application, the Virginia City Hybrid Energy Center is generally proceeding on schedule and on budget, with the total construction cost forecast remaining at the \$1.8 billion level, excluding financing costs, approved in the Commission's Final Order in Case No. PUE-2007-00066. The total revenue requirement proposed to be recovered by the Application is \$200,457,000, which is proposed to go into effect on April 1, 2011. The revenue requirement provided by the Company is for service rendered during the proposed rate year, which commences on April 1, 2011 and extends through March 31, 2012.

The key components of the revenue requirement are the Projected Cost Recovery Factor, the AFUDC Cost Recovery Factor, and the Actual Cost True-Up Factor. The Projected Cost Recovery Factor takes the projected thirteen-month average rate base for the month ending March 31, 2011, through the month ending March 31, 2012, and multiplies it by the Company's cost of capital. The calculation of the Projected Cost Recovery Factor revenue requirement totals \$178,586,000 for Virginia jurisdictional customers. The AFUDC Cost Recovery Factor represents the amortization, over the remaining construction period beginning April 1, 2011, of the unrecovered AFUDC accrued between the date the project began and the day before January 1, 2009, which was when rates initially went into effect recovering a cash return on the project. Therefore, the Company's proposed AFUDC Cost Recovery Factor revenue requirement for the twelve-month period beginning April 1, 2011, is \$7,529,000, and includes a twelve-month recovery of approximately 31% of the accrued balance of AFUDC, at a revenue requirement level, which has been grossed up for taxes. The Actual Cost True-Up Factor will credit to, or recover from, customers any over/under recovery of costs from the most recently completed calendar year. In this case, the actual costs incurred during 2009, including the approved rate of return on common equity of 12.12%, are compared to actual revenues recovered during 2009. According to the Company, the difference between the actual costs incurred in 2009 and the actual revenues collected from Virginia jurisdictional customers shows that there was an under-recovery of actual costs during the 2009 rate year of \$14,342,000.



For the calculation of the projected annual revenue requirement for Rider S in the 2011 rate year, Dominion Virginia Power has utilized an enhanced rate of return on common equity ("ROE") of 12.30%. This reflects a proposed general ROE of 11.30%, and a 100 basis point enhanced return.

The Commission entered an Order for Notice and Hearing ("Scheduling Order") that, among other things, scheduled a public hearing to commence on November 9, 2010, at 10:00 a.m., in the Commission's Courtroom, Second Floor, Tyler Building, 1300 East Main Street, Richmond, Virginia, to receive evidence related to the Company's Application in this proceeding. Any person desiring to offer testimony as a public witness at the hearing concerning the application need only appear in the Commission's Courtroom at 9:45 a.m. on the day of the hearing and identify himself or herself to the Commission's Bailiff.

The Company's Application and the Commission's Scheduling Order are available for public inspection during regular business hours at all of the Company's offices in the Commonwealth of Virginia. Interested persons may also review the Company's Application in the Commission's Document Control Center, located on the First Floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia, between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday, excluding holidays. A copy may also be obtained, at no cost, by written request to counsel for the Company, Karen L. Bell, Esquire, or Lisa S. Booth, Esquire, Dominion Resources Services, Inc., 120 Tredegar Street, Richmond, Virginia 23219. If acceptable to the requesting party, the Company may provide the Application by electronic means. In addition, unofficial copies of the public version of the Company's Application, Commission Orders entered in this docket, the Commission's Rules of Practice and Procedure, as well as other information concerning the Commission and the statutes it administers, may be viewed on the Commission's website: <http://www.scc.virginia.gov/case>.

Any interested person may participate as a respondent in this proceeding by filing, on or before September 1, 2010, an original and fifteen (15) copies of a notice of participation as a respondent with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. Pursuant to Rule 5 VAC 5-20-80 of the Commission's Rules of Practice and Procedure, any notice of participation shall set forth (i) a precise statement of the interest of the respondent; (ii) a statement of the specific action sought to the extent then known; and (iii) the

factual and legal basis for the action. Interested persons shall refer in all of their filed papers to Case No. PUE-2010-00054.

On or before September 24, 2010, each respondent may file with the Clerk of the Commission at the address above an original and fifteen (15) copies of any testimony and exhibits by which it expects to establish its case and shall serve copies of the testimony and exhibits on counsel to the Company at the address above and on all other respondents. In the alternative, testimony and exhibits may be filed electronically as provided by 5 VAC 5-20-140. Respondents shall comply with the Commission's Rules of Practice and Procedure, including: 5 VAC 5-20-140, *Filing and service*; 5 VAC 5-20-150, *Copies and format*; and 5 VAC 5-20-240, *Prepared testimony and exhibits*.

On or before November 2, 2010, any interested person may file with the Clerk of the Commission, at the address set forth above, written comments on the Application. Any interested person desiring to submit comments electronically may do so, on or before November 2, 2010, by following the instructions found on the Commission's website: <http://www.scc.virginia.gov/case>. All correspondence shall refer to Case No. PUE-2010-00054.

#### VIRGINIA ELECTRIC AND POWER COMPANY

(5) On or before July 30, 2010, the Company shall serve a copy of this Order for Notice and Hearing on the chairman of the board of supervisors and county attorney of each county and upon the mayor or manager (or equivalent official) of every city and town in which the Company provides service in the Commonwealth of Virginia. Service shall be made by first class mail to the customary place of business or residence of the person served.

(6) On or before September 1, 2010, the Company shall file with the Clerk of the Commission proof of the notice and service required by Ordering Paragraphs (4) and (5) herein.

(7) On or before November 2, 2010, any interested person may file with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118, written comments on the application. Any interested person desiring to submit comments electronically may do so, on or before November 2, 2010, by following the

instructions found on the Commission's website: <http://www.scc.virginia.gov/case>. All correspondence shall refer to Case No. PUE-2010-00054.

(8) Any interested person may participate as a respondent in this proceeding by filing, on or before September 1, 2010, an original and fifteen (15) copies of a notice of participation with the Clerk at the address in Ordering Paragraph (7), and shall simultaneously serve a copy of the notice of participation on counsel to Dominion Virginia Power at the address in Ordering Paragraph (3). Pursuant to Rule 5 VAC 5-20-80 of the Commission's Rules of Practice and Procedure, any notice of participation shall set forth: (i) a precise statement of the interest of the respondent; (ii) a statement of the specific action sought to the extent then known; and (iii) the factual and legal basis for the action. Interested persons shall refer in all of their filed papers to Case No. PUE-2010-00054.

(9) Within five (5) business days of receipt of a notice of participation as a respondent, the Company shall serve upon each respondent a copy of this Order for Notice and Hearing, a copy of the application, and all materials filed by the Company with the Commission, unless these materials have already been provided to the respondent.

(10) On or before September 24, 2010, each respondent may file with the Clerk of the Commission an original and fifteen (15) copies of any testimony and exhibits by which it expects to establish its case and shall serve copies of the testimony and exhibits on counsel to the Company and on all other respondents. In the alternative, testimony and exhibits may be filed electronically as provided by 5 VAC 5-20-140. Respondents shall comply with the Commission's Rules of Practice and Procedure, including: 5 VAC 5-20-140, *Filing and service*; 5 VAC 5-20-150, *Copies and format*; and 5 VAC 5-20-240, *Prepared testimony and exhibits*.

(11) The Commission Staff ("Staff") shall investigate the application. On or before October 8, 2010, the Staff shall file with the Clerk of the Commission an original and fifteen (15)

copies of the Staff's testimony and exhibits and shall serve a copy on counsel to the Company and all respondents.

(12) On or before October 22, 2010, Dominion Virginia Power may file with the Clerk of the Commission an original and fifteen (15) copies of any rebuttal testimony and exhibits and shall serve a copy on the Staff and all respondents. In the alternative, rebuttal testimony and exhibits may be filed electronically as provided by 5 VAC 5-20-140, *Filing and service*.

(13) The Commission's Rules of Practice and Procedure, 5 VAC 5-20-260, *Interrogatories to parties or requests for production of documents and things*, shall be modified for this proceeding as follows: answers to interrogatories and requests for production of documents shall be served within seven (7) calendar days after receipt of the same. Except as modified above, discovery shall be in accordance with Part IV of the Commission's Rules of Practice and Procedure.

(14) As provided by the Rate Case Rules, 20 VAC 5-201-10 E, the Company is granted a partial waiver of Rule 20 VAC 5-201-60 and Rule 20 VAC 5-201-90 to the extent discussed above.

(15) This matter is continued pending further ruling of the Hearing Examiner or order of the Commission.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:  
Joseph K. Reid, III, Esquire, and Kristian M. Dahl, Esquire, McGuireWoods LLP, 901 East Cary Street, Richmond, Virginia 23219; Karen L. Bell, Esquire, and Lisa S. Booth, Esquire, Dominion Resources Services, Inc., 120 Tredegar Street, Richmond, Virginia 23219; Caleb A. Jaffe, Esquire, Southern Environmental Law Center, 201 West Main Street, Suite 14, Charlottesville, Virginia 22902-5065; Kenneth G. Hurwitz, Esquire, Haynes and Boone, LLP, 1615 L Street, N.W., Suite 800, Washington, D.C. 20036-5610; Louis R. Monacell, Esquire, Christian &

Barton, LLP, 909 East Main Street, Suite 1200, Richmond, Virginia 23219-3096; Frann G. Francis, Senior Vice-President and General Counsel, Apartment and Office Building Association of Metropolitan Washington, 1050 17th Street, N.W., Suite 300, Washington, D.C. 20036; C. Meade Browder, Jr., Senior Assistant Attorney General, Division of Consumer Counsel, Office of the Attorney General, 900 East Main Street, Second Floor, Richmond, Virginia 23219; and a copy shall be delivered to the Commission's Office of General Counsel and Divisions of Energy Regulation, Economics and Finance, and Public Utility Accounting.